Research Update:

ENA Sur Trust Rating Cut To 'B+' On Sluggish Traffic Recovery And Expected Higher Costs; Still On CreditWatch Negative

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Rating Action Overview

- We updated Panamanian toll road ENA Sur Trust's (ENA Sur) base-case scenario to incorporate our expectation of higher operating expenses due to ongoing maintenance (opex) that we don't expect to be postponed, and a harsher traffic drop of almost 40% in 2020. We also anticipate a slower recovery of traffic levels in the next three months than what we previously projected, amid increasing competition from free alternative roads that due to the current mobility restrictions are less congested. In this scenario, we do not expect internally generated cash flow will be enough to cover debt service payments this year, and therefore project ENA Sur to partially use existing liquidity reserves.
- Consequently, on May 14, 2020, S&P Global Ratings lowered its issue-level rating on ENA Sur's Class A $170 million notes to 'B+' from 'BBB-'.
- We're keeping the rating on CreditWatch with negative implications. The CreditWatch negative reflects a 50% chance of a further downgrade in the next three months if the Panamanian government tightens or extends the pandemic containment measures, or if traffic does not recover at the expected pace, resulting in weaker coverage metrics.

Rating Action Rationale

In our updated base case scenario, we expect higher maintenance expenses in 2020, which along with reduced traffic amid COVID-19 impact will significantly affect ENA Sur's DSCRs in the next 12 months. We updated our forecasts for ENA Sur. The new base-case scenario incorporates $16 million in operating expenses for 2020, which is 40% higher than 2019 figures, and two times the amount projected in our last review, mostly attributed to the acquisition of a crane and additional construction materials already placed on the road in order to proceed with ongoing maintenance works.

In addition, we assume a slower-than-expected recovery of traffic levels in the very short term, given that most drivers have shifted to free alternative roads parallel to ENA Sur (such as Domingo Diaz Avenue) because they're less congested in the lockdown context and, therefore, there's no significant time savings for using the paid alternative. Considering that the Panamanian government plans to lift the quarantine by the end of May, we expect traffic volumes at ENA Sur will remain in line with that of April (85% lower than 2019 figures) until the end of June, and will gradually start to recover from July onwards, as the free alternative roads start to congest. Hence, we now expect a traffic drop close to 40% in 2020, rather than our previous 35%, leading to annual revenues for 2020 of $40 million-$45 million, versus the previous $45 million-$50 million.

The combination of these factors will lead to a liquidity shortfall of about $3.5 million by the end of 2020. In our view, there is sufficient liquidity in the structure to handle the shortfall, namely due to the six-month debt service reserve account (DSRA) of about $9.6 million, and excess cash already held in the project's accounts of about $4.4 million to pay interest and principal of the class A notes.

Ongoing major maintenance forecast for 2020 will pull from the class B notes payments and increase interest payments. The project has two pari passu bonds outstanding: $170 million class A notes and $225 million class B notes due in May 2025 (not rated). The class B notes have a 100% cash-sweep mechanism, in which principal payments are paid with the excess cash flow after covering the project expenses, interest payments, replenishing reserve accounts, and covering major maintenance costs, according to the cash flow waterfall.

The project managed to postpone 33% of the major maintenance capex originally projected for 2020 until traffic conditions normalize and it recovers its financial flexibility, while we previously expected they would postpone 80%. Therefore, we forecast less excess cash in order to pre-pay the principal of class B notes. Despite principal deferral, we continue to expect class B notes to be fully paid before the due date, with no refinancing risk.

Environmental, social, and governance (ESG) factors relevant to the rating action:

- Health and safety

CreditWatch

The CreditWatch negative reflects a 50% chance of a further downgrade in the next three months if the Panamanian government tightens or extends its pandemic containment measures, or if traffic does not recover at the expected pace, resulting in weaker coverage metrics. We could further lower the rating if we envision a traffic drop for 2020 above 45%, lowering the minimum annual debt service coverage ratio (DSCR) below 1.0x.

We could revise the outlook to stable in the following three months if traffic effectively starts to recover by the third quarter of the year, with monthly traffic above 2.5 million cars (about 50% of 2019 traffic in the same period), resulting in an annual DSCR above 1.25x.

Project Description

ENA Sur Trust has the concession to design, construct, maintain, administer, and operate the Corredor Sur toll road in Panama City. The toll road has been fully operational since February 2000, and the concession expires on the earlier of June 2029, or on the date on which the notes (class A and B) will be fully paid, which our base-case scenario assumes will occur in the first half of 2025.

Maxipista de Panama S.A. (not rated) provides the operating and maintenance (O&M) activities under a fixed-price contract of about $9 million with Maxipista that will remain in place during the notes' life. The operator is an experienced player in the toll road business that also operates the ENA Norte corridor.

Base Case

Assumptions

- Traffic decrease of about 40% for 2020 compared with 2019 real traffic, with a recovery to 54 million vehicles in 2021 (88% of 2019 traffic), 59 million in 2022 (95% of 2019 traffic), and 62 million in 2023 (100% of 2019 traffic). Starting in 2024, we expect traffic to increase about 3%, slightly below Panamana's GDP growth until the end of the notes' term.
- No tariff increases, in line with the trend in previous years, given the discretionary rate adjustment mechanism.
- Annual O&M and minor maintenance costs of approximately $16 million in 2020.
- Major maintenance costs to $7.3 million in 2020.

Key metrics

On the quarterly coupon payment dates, we expect the project to use its excess cash of about $4.4 million and part of its $9.6 million DSRA to cover the projected shortfall in the May and November 2020 periods. However, we expect it to replenish the reserve accounts in the next year, as long as recovery occurs as expected, and forecast the average DSCR to reach 2.25x until the notes mature.

Downside Case

Assumptions

- Traffic drop of 45% for 2020, which includes a four-month lockdown. The rest of our expectations are aligned to the base-case scenario.
- O&M and capex costs up 10% over our base-case assumptions and a 100 basis point decrease in GDP growth rate.

Key metrics

- A minimum DSCR below 1.00x on February 2021

Rating Score Snapshot

Operations phase SACP (Senior debt)

- Operations phase business assessment (OPBA): 5 (1=best to 12=worst)
- Preliminary SACP: bb-
- Downside impact on preliminary SACP: Yes (+1 notch)
- Liquidity: Neutral (no impact)
- Comparative analysis assessment: Neutral (no impact)
- Debt structure: Material dependence on cash flow sweeps (-2 notches)
- Adjusted preliminary operations phase SACP: b+
- Operations counterparty ratings adjustment: Neutral
- Financial counterparty ratings adjustment: Neutral
- Operations phase SACP: b+

Modifiers (Senior Debt)

- Parent linkage: De-linked
- Structural protection: Neutral
- Extraordinary government: None
- Sovereign rating limits: BBB+
- Full credit guarantees: None
- Senior debt issue rating: B+

Liquidity

We continue to assess ENA Sur's liquidity as neutral. The project has a six-month DSRA and a minor and major maintenance reserve account of about $9.6 million, $1.0 million, and $1.5 million, respectively.

Additionally, the project benefits from having a restricted capital structure in which no dividend payments are allowed until 100% of class B bond is paid.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Key Credit Factors For Road, Bridge, And Tunnel Project Financings, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014

- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded

	To	From
ENA Sur Trust		
Senior Secured	B+/Watch Neg	BBB-/Watch Neg